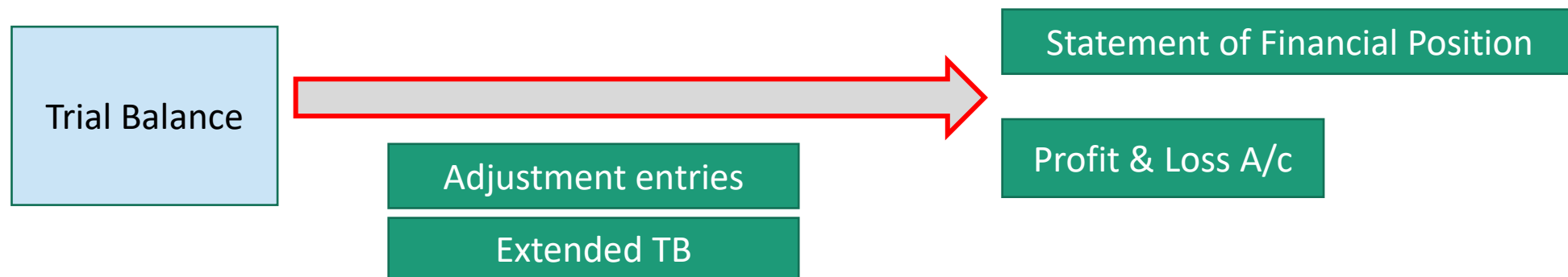


Presentation on Preparing basic financial statements (Chapter-5)

Md. Main Uddin FCA, ACS

Trial Balance

A list of nominal ledger balances shown in debit and credit columns, as a method of testing the accuracy of double entry bookkeeping. **The trial balance is not part of the double entry system.**



What if the trial balance fails to balance?

If the two column totals on the trial balance are not equal, there must be an error in recording transactions in the ledger accounts, or in the addition of the trial balance.

Even if the trial balance balances, the following error types may still have arisen in the ledger accounts.

Omission errors

a transaction is completely omitted, so neither a debit nor a credit is made.

Commission errors

a debit or credit is posted to the correct side of the nominal ledger, but to a wrong account. For example, a payment is debited to the rent account instead of the wages account.

Compensating errors

one error is exactly cancelled by another error elsewhere.

Errors of principle

such as cash from receivables being debited to trade receivables and credited to cash at bank instead of the other way round.

Extended Trial Balance

An extended trial balance is a worksheet, used to **keep track of adjustments between the trial balance and the final accounts.**

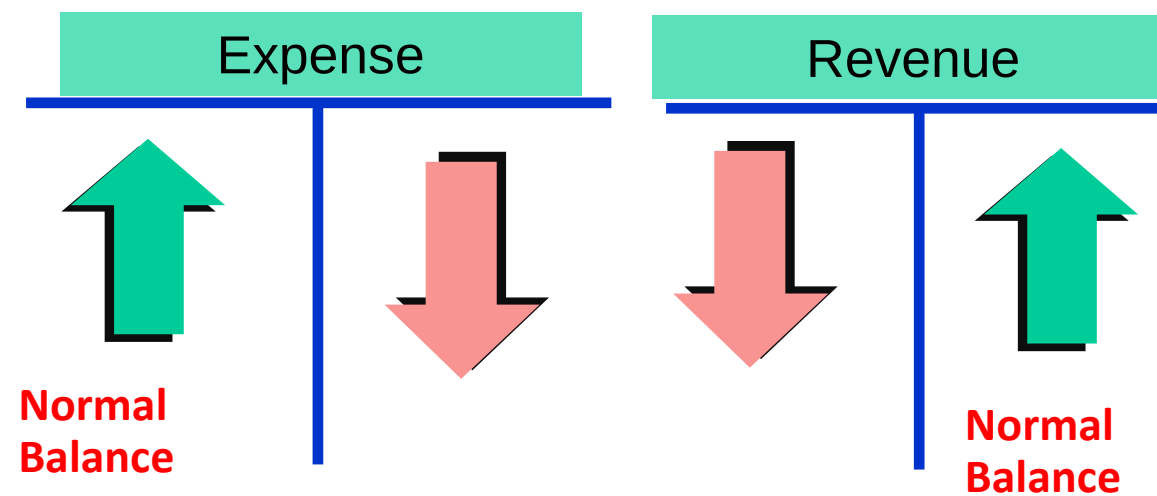
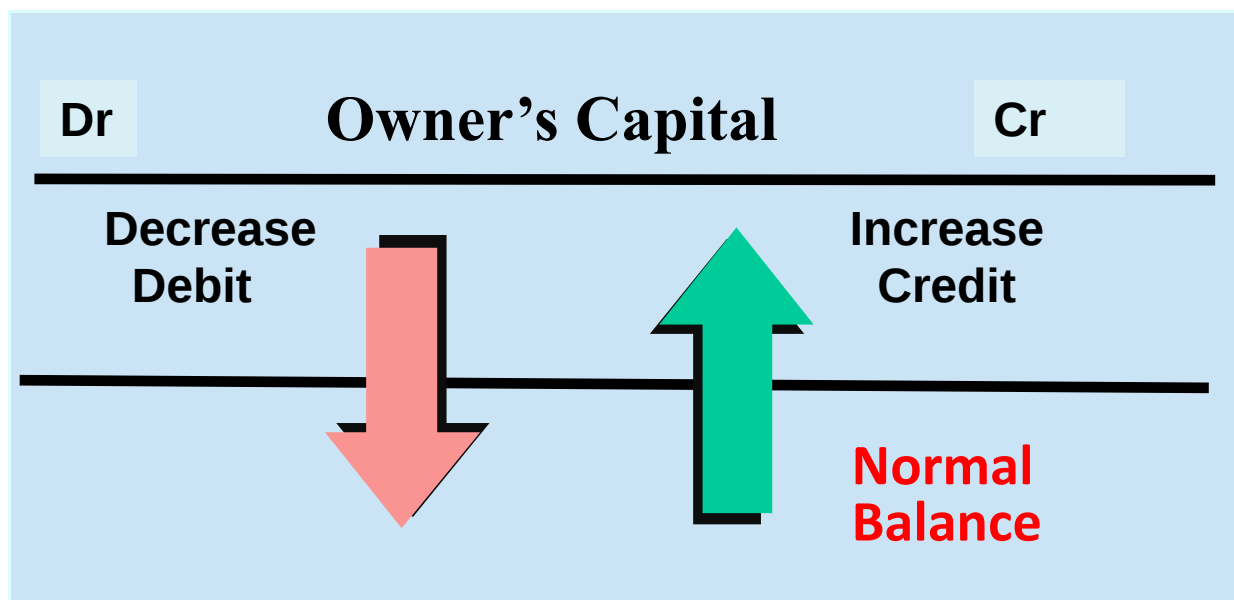
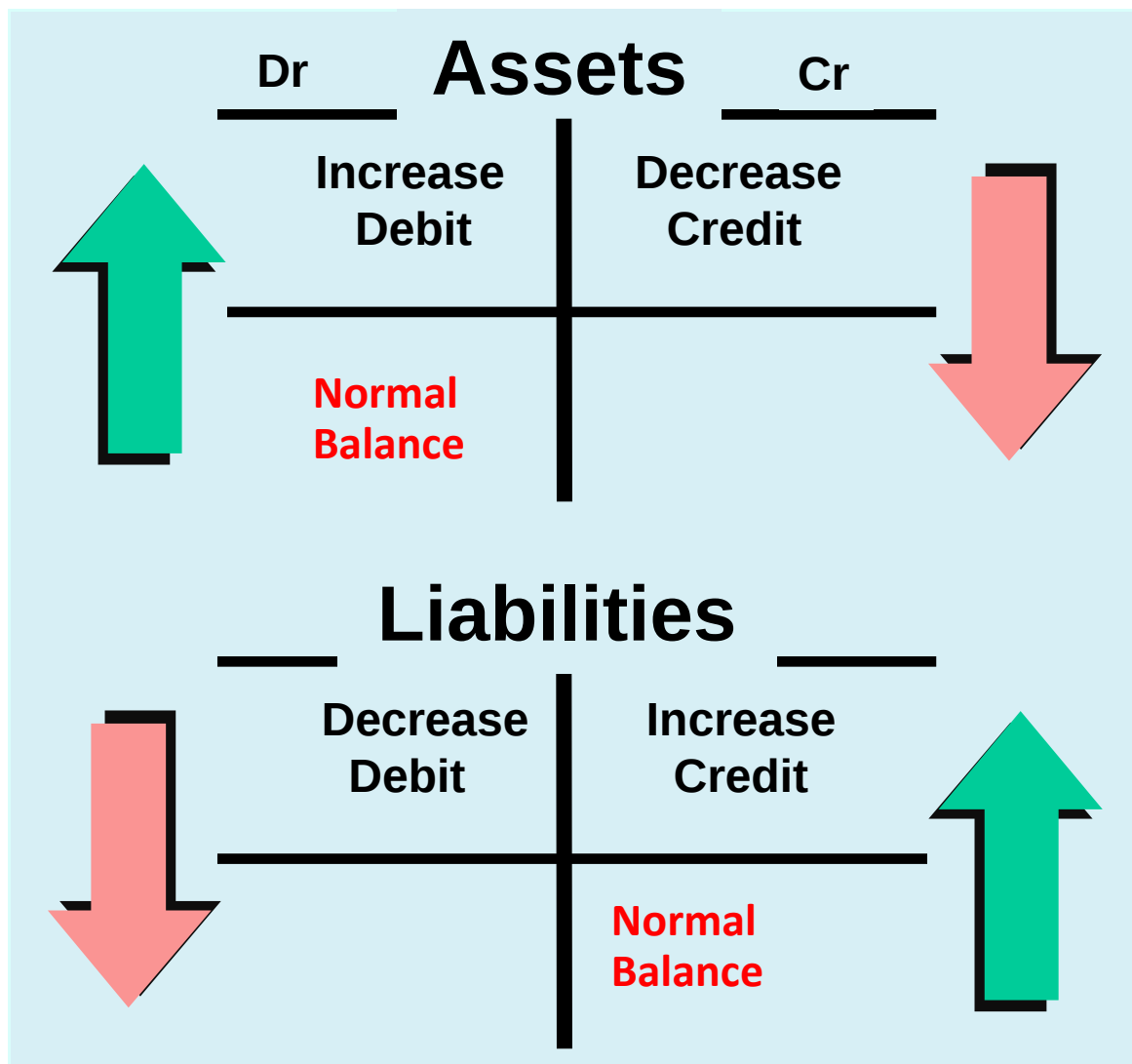
This has debit and credit columns for the initial trial balance, plus debit and credit columns for adjustment journals. A revised trial balance is then created by cross-casting horizontally.

An extended trial balance is used to adjust trial balance figures for:-Errors-Accruals and prepayments.-Depreciation-Irrecoverable debts written off-Adjustments to the receivables allowance-Closing inventory figures

Extended Trial Balance

	Debit	Credit	Adjustment entries		Debit	Credit
Bank Loan		12,000				12,000
Cash at Bank	11,700		240	760	11,180	
Capital		13,000				13,000
Rent	1,880				1,880	
Trade Payables		11,200		500		11,700
Purchase	12,400		1,000		13,400	
Sales		34,600		1,040		35,640
Other Payables		1,620				1,620
Trade Receivables	12,000		800		12,800	
Bank loan interest	1,400				1,400	
Other expenses	11,020		260		11,280	
Non- current assets	22,020				22,020	
	72,420	72,420	2,300	2,300	73,960	73,960

Normal balances — assets, liabilities, Revenue and Expense



Case-1

Top Clean Services has the following unadjusted trial balance after a month of operation as on 30 September 2016:

	<u>Trial Balance</u>	
	Debit(Taka)	Credit(Taka)
Cash	5,400	
Accounts Receivable	2,800	
Supplies	1,300	
Prepaid Insurance	2,400	
Equipment	60,000	
Notes Payable		40,000
Accounts Payable		2,400
Owner's Capital		30,000
Owner's Drawings	1,000	
Service Revenue		4,900
Salaries & Wages Expenses	3,200	
Utilities Expense	800	
Advertising Expense	400	
	<u>77,300</u>	<u>77,300</u>

Nov/Dec-2016

Required to prepare:

- Other information are:
- (i) Insurance expense is Tk.200 per month.
 - (ii) Tk.1,000 of supplies are in hand at September 30.
 - (iii) Monthly depreciation on the equipment is Tk.900.
 - (iv) Interest of Tk.500 on the notes payable has accrued during September.

- (a) Adjusted Trial Balance.
- (b) Income Statement for the month of September 2016 and Balance Sheet as on 30 September 2016.
- (c) Closing Journal entries.

Case-2

Manik opens a company on April 1, 2012. At April 30, the trial balance shows the following balances for selected accounts.

	<u>Taka</u>
Prepaid Insurance	3,600
Equipment	28,000
Notes Payable	20,000
Unearned Revenue	4,200
Service Revenue	7,400

Analysis reveals the following additional data:

- Prepaid insurance paid for 2 years effective from April 1, 2012.
- Depreciation on the equipment is Tk. 500 per month.
- The note payable is dated April 1, 2012. It is a 6 month, 12% note.
- Seven customers paid for the company's 6 months' service of Tk. 600 beginning in April. These customers were serviced in April.
- The services provided to other customers but not billed at April 30 totaled Tk.1, 500.

Requirements:

- Prepare the adjusting entries for the month of April.
- Prepare adjusted trial balance of Manik & Company.

- ✓ In a period, sales are CU140,000, purchases CU75,000 and other expenses CU25,000. What is the figure for net profit to be transferred to the capital account?
- a) CU40,000
 - b) CU65,000
 - c) C CU75,000
 - d) CU140,000

- ✓ During March, Chan had the following items in the cash at bank account.

Balance at 1 March (overdrawn)	CU 500
Receipts from receivables	12,000
Payments to payables	7,000
Payments for expenses	3,000
Cash drawn for own use	1,200

What is the balance on the account on 31 March?

- A Debit CU300
- B Credit CU300
- C Debit CU1,300
- D Credit CU1,300

✓ Which three of the following items will be listed as a credit balance on a trial balance?

- a) Trade payables
- b) Purchases
- c) Discounts received
- d) Sundry expenses
- e) Capital
- f) Drawings

✓ Select whether the following balances will be in the debit or the credit columns of the trial balance.

Debit / Credit

- ☐ Machinery
- ☐ Trade payables
- ☐ Drawings
- ☐ Discount allowed
- ☐ Revenue
- ☐ Discount received
- ☐ Bank overdraft
- ☐ Rental income

✓ The income statement columns on Jude's ETB are CU57,390 for the debit column and CU84,928 for the credit column. What final entry does Jude need to make?

- a) Credit CU27,538 net profit
- b) Credit CU27,538 net loss
- c) Debit CU27,538 net profit
- d) Debit CU27,538 net loss

✓ An error has led to Erica's trial balance failing to balance. This could have been caused by an error of commission.

- a) True
- b) False

✓ At 31 December 20X6 Richard's total assets are CU20,376 and his non-current liabilities are CU10,000. If his current liabilities are CU6,290 then his capital balance at 31 December 20X6 must be CU..... .

*Thank
you*

